

Gandaki Bikas Bank Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4+ to the proposed Equity Share (Rights Issue) of Gandaki Bikas Bank Limited

Facility/Instrument	Issue Size	Grading Action (November 2015)
Rights Share Issue	NPR 105.60 million	[ICRANP] IPO Grade 4+ (Assigned)

ICRA Nepal has assigned an “[ICRANP] IPO Grade 4+”, indicating below-average fundamentals to the proposed rights issue amounting NPR 105.60 million of Gandaki Bikas Bank Limited (GBBL). ICRA Nepal assigns IPO grading on a scale of IPO Grade 1 through IPO Grade 5, with Grade 1 indicating strong fundamentals and Grade 5 indicating poor fundamentals. For the Grading categories 2, 3 and 4, the sign of + (plus) appended to the Grading symbols indicate their relative position within the Grading categories concerned. Thus, the Grading of 2+, 3+ and 4+ are one notch higher than 2, 3, and 4, respectively. GBBL is proposing to come out with 30% rights issue of 1,056,000 numbers of equity shares of face value NPR 100/- each to be issued to the existing shareholders at par. The proposed issue is being made in order to augment the capital base to support the future growth plans of the management.

The grading is constrained by buildup of delinquencies¹ in GBBL’s books during the last few months² on account of uncertain operating environment created by ongoing political turmoil in the southern plains of the country impacting the overall economy and repayment capacity of the borrowers. This could impact the asset quality indicators going forward. The grading is also constrained by GBBL’s high proportion of revolving loans to relatively weaker borrower profile (>60% as on July-15³) along with limited seasoning of a large part of the credit book due to high growth (credit portfolio has grown by around 81% in last two years), weaker deposit profile compared to industry average (CASA⁴ proportion 48% on July-15 vs. 53% industry average), lack of diversity in earnings, stiff competition from commercial banks offering products at finer lending rates, lack of institutional promoters and small capital base vis-à-vis revised regulatory requirement (NPR 433 million on July-15 vs. NPR 1,200 million to be maintained by July-17), . Nonetheless, the grading factors in GBBL’s track record (started operations in January 2005), adequate franchise network (21 branches spread across 10 licensed districts), moderate scale of operations (total assets base of NPR 5,100 million on July-15), healthy credit growth (CAGR 30% in past 5 years ending FY15), fair asset quality maintained so far (Gross NPL of 0.13% in July-15 and 0.74% in mid-Oct-15), granular credit portfolio (top 20 borrower groups accounted for ~9.8% of total loans on July-15), healthy profitability profile (PAT/Net worth of ~20% in past 3 years ending FY15) and regulatory arbitrage available with ‘Schedule B’ Development Banks compared to ‘Schedule A’ commercial bank-in the form of lower CRR/SLR⁵ requirements. ICRA Nepal also notes limited impact of April-2015 earthquake in the area of operations of GBBL. Going forward, GBBL’s ability to maintain growth and return indicators amid aforementioned uncertainties while maintaining assets quality indicators would have a bearing on the overall financial profile.

The credit portfolio of GBBL has grown at a CAGR of 37% during the past 3 years ending FY15 (albeit on a low base) and stood at NPR 3,841 million on July-15. The credit growth has been supported by GBBL’s franchise of 21 branches spread across 10 districts; with relatively higher portfolio concentration in Kaski District. The credit portfolio as on Jul-15 was mainly composed of Personal loans (~38%), Business Loans

¹ Delinquent loans on mid-Oct-15 accounted for 11.59% of total loans vs. 3.54% in mid-July-15.

² Data on Mid-Oct-15 are provisional and all calculations are based on the data provided by management of GBBL

³ Data on Mid-Jul-15 are provisional and all calculations are based on the data provided by management of GBBL

⁴ Current and Saving Accounts

⁵ Cash Reserve Ratio/ Statutory Liquidity Ratio



(~24%), Housing Loans (~15%), Real estate loans (~10%) and hire purchase loans (~5%) among others. Revolving loans accounts for >60% of total loans including >50% loans in the form of overdraft; wherein the repayment capacity of borrowers remains untested. GBBL's assets quality remains partly benefitted from sizeable revolving loan portfolio and limited seasoning of credit books (credit portfolio grew by 81% in past 2 years ending FY15). However, granular credit portfolio and low concentration among top borrower groups provides some comfort regarding incremental assets quality. So far, GBBL's assets quality remains healthy with Gross NPL limited to ~0.51% in past 5 years ending FY15; suffering low impact from April-15 earthquake. However, post FY15, prolonged strike and political turmoil in the southern plains of Nepal creating import disturbances has affected the repayment capacity of borrowers which has resulted in build-up of delinquencies and raised concerns regarding incremental assets quality of GBBL. Delinquent loans on mid-Oct-15 accounted for 11.59% of total loans vs. 3.54% in mid-July-15. However, the regulatory relaxation in terms of recognition of NPLs for quarter ended Oct-15 could provide some benefit for the reported numbers. Further, portfolio vulnerability of GBBL remains high vs. commercial banks due to inferior borrower profile and assessed income based product lending which could lead to volatility in asset quality indicators. Although GBBL's portfolio was not impacted directly by the earthquake, the exposures in unaffected geographies/segments could witness some stress due to overall moderation in economic activity in post-earthquake era.

As for funding profile, despite long track record of GBBL, the deposit mix remains unfavourable with CASA proportion below industry average (48% on July-15 vs. industry average of 53%). GBBL's cost of funds (6.10% during FY15 vs development bank industry average of 6.20%) however remains comparable with peers and lower compared to development bank industry average. GBBL's deposit concentration among top depositors remains moderate with top 20 depositors accounting for 15.56% of total deposits on July-15. Going forward, the ability of GBBL to improve the deposit mix, deposit cost and granularity will have a bearing on the stability of the deposit profile and overall competitive positioning.

GBBL reported profit after tax (PAT) of NPR 109 million in FY15 (corresponding to return on net worth of 21.03% and return on assets of 2.50%) and NPR 79 million during FY14 (corresponding to a return on net worth of 19.17% and return on assets of 2.46%). GBBL's profit level remains primarily supported by healthy NIMs (average of 4.88% in past 3 years ending FY15; as a result of healthy yield, healthy CD ratio and declining cost of funds), declining operating expense ratio and low provisioning expenses. Going forward, the profitability profile of the bank will depend on its ability to expand its scale of operations thereby achieving scale of economies, improve deposit profile and control recovery profile; the same however remains a challenge given intense competition among the BFIs in the region and economic impact of recent turmoil.

GBBL's capitalization profile remains adequate with CRAR 11.84% on Jul-15 as against minimum regulatory requirement of 11% for class B banks; with tier I capital of 11.02%. The proposed rights issue along with the internal accruals would further increase capitalization. However, monetary policy of FY 2015-16 has announced that 10-district level development banks are required to increase their paid-up capital to NPR 1,200 million within FY17. GBBL has a capital of NPR 433 million as of mid-Jul-15 and same is expected to increase to NPR 540 million after proposed right issues (assuming full subscription), thus the bank is likely to issue fresh capital or opt for merger to meet the regulatory minimum capital. Going forward, successful execution of merger (if opted) or attaining adequate organic growth to ensure efficient utilization of fresh capital (in case of equity injection) thereby preventing dilution of returns; remains a key challenge for the bank.

Company Profile

Incorporated in August 2004, Gandaki Bikas Bank Ltd (GBBL) started its commercial operation in January 2005, as 10 districts level development bank. It is the first regional development bank based in Pokhara. Its Corporate Head Office is located at New-Road, Pokhara of Kaski District in Western Nepal. GBBL is



promoted by 97 individual promoters, with maximum shareholding by one individual of 5.66%. Share capital of the company is distributed among promoter & public in the ratio of 70:30. Mr. Chhabindra Nath Sharma is the Acting Chief Executive Officer of the bank.

GBBL has presence in 10 districts of Nepal through its 21 branches. GBBL has market share of about 1.90% in terms of deposit base and 1.99% in terms of credit portfolio of Development Banks as on mid Jul-15. GBBL reported a net profit of NPR 109 million during 2014-15 over an asset base of NPR 5,100 million as on mid Jul-15 as against net profit of NPR 79 million during 2013-14 over an asset base of NPR 3,598 million as on mid Jul-14. During Q1 FY15-16, GBBL has reported profit of NPR 20.14 million over assets base of NPR 5,257 million on mid-Oct-15. GBBL's CRAR was 11.84% in mid-July-15 and 11.54% in mid-Oct-15. The gross NPLs for the bank were 0.13% as on mid-Jul-2015 and 0.74% in mid-Oct-15. In terms of technology platform, GBBL has implemented Pumori IV System.

November 2015

For further details please contact:

Analyst Contacts:

Mr. Kishor Prasad Bimali, (Tel No. +977-1-4419910/20)

Kishor@icranepal.com

Mr. Sailesh Subedi, (Tel No. +977-1-4419910/20)

sailesh@icranepal.com

Relationship Contacts:

Mr. Deepak Raj Kafle, (Tel. No. +977-1-4419910/20)

drkafle@icranepal.com

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website (www.icranepal.com) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents